

**Testimony of the U S Rice Producers Association
and the U.S. Rice Producers' Group**

**By
Nolen Canon**

**Before
The Committee on Agriculture
U.S House of Representatives**

March 21, 2001

INTRODUCTION

Mr. Chairman and members of the Committee, my name is Nolen Canon. I am a rice and soybean farmer from Tunica, Mississippi. I also currently serve as Chairman of the US Rice Producers Association. I am accompanied today by Mr. John Denison, a rice, soybean and cattle producer from Iowa, Louisiana. John is the Chairman of the Rice Foundation, and the immediate past Chairman of the USA Rice Federation.

I am pleased to appear before the Committee today on behalf of the Rice Producers Association and the U.S. Rice Producers' Group. Together, these two organizations represent virtually all of the nation's rice producers. My testimony represents the consensus position of these two organizations with respect to legislation addressing our domestic agricultural commodity programs. This consensus was developed during a series of meetings among our producer representatives held over the past several months.

I am also pleased to inform the Committee that the Rice Millers' Association and the USA Rice Federation have endorsed this testimony.

Mr. Chairman, prior to presenting our initial recommendations for the Committee's consideration in drafting a new farm bill, I would like to discuss the critical need for additional economic assistance for crop years 2001 and 2002.

U.S. agriculture in general, and rice producers in particular, are facing continued low prices and declining income. Prices for energy-related products, including fuel, natural gas and fertilizer, have increased substantially, placing rice producers in a further cost-price squeeze. This is occurring while aggregate rice exports remain stagnant and farmers face growing costs due to increased environmental and pesticide use regulations.

Negative cash flow projections are currently causing bankers to reduce or even refuse credit for spring rice planting. This hesitancy on the part of lenders is not unfounded. Our economic analyses indicate that rice is the only major commodity for which net market returns after variable costs for the 2001 crop will be negative, if government payments are excluded.

In short, if Congress does not provide rice producers with further immediate assistance, consideration of any long-term farm policy will in all likelihood be unnecessary for many rice farmers who may be forced out of business before the new farm policy can take effect.

Mr. Chairman, it is for these reasons that we strongly urge Congress to enact immediate, additional farm assistance this year for crop year 2001, and to seriously consider providing the same assistance for crop year 2002. The additional farm assistance for both the 2001 and 2002 crop years should be in an amount such that total Federal income assistance to rice farmers is no less than that provided for the 2000 crop. This additional financial assistance is critical to help rice farmers through this difficult economic period. It will also provide Congress sufficient time over the next two years to fully consider and debate all aspects of the new farm bill, including price and income supports, and the trade, conservation and research titles that are all important to U.S. rice producers.

BACKGROUND

Rice production and marketing is a multi-billion dollar activity in the United States. Primarily produced on over 3 million acres in six states, rice accounts for \$1.4 billion in farm revenues. Rice production declined modestly in the mid-1980's, but grew sharply in the 1990's, from 156.1 million hundredweight in 1990 to an estimated 191.1 million hundredweight in 2000, an increase of more than 22 percent over the decade. Over the last 10 years California and Arkansas, the two largest rice-producing states, have gained acreage, up 38 and 15 percent respectively. Missouri has almost doubled its rice acreage. Over the same period rice acreage has declined substantially in Texas. Acreage in Louisiana and Mississippi has also declined.

U.S. rice production provides a versatile, nutritious food product for people here in the United States and around the world. Rice is used in everything from baby formulas to beer, and in a wide variety of ethnic cuisines enjoyed by many Americans. Rice hulls and other co-products are being used in a number of innovative applications – in building materials and to provide energy. Winter-flooded rice fields provide important habitats for migratory waterfowl and other species.

Rice is a capital intensive and expensive crop to produce because of its requirement for extensive irrigation. Approximately sixty percent of total rice supply is used domestically and the balance is exported.

While the United States is currently the third largest exporter of rice in the world, our share of world export trade has declined continuously over the past twelve years. In 1986 the United States accounted for nearly 30 percent of world exports of rice. This year, the Department of Agriculture projects that U.S. rice will account for only 15 percent of world rice exports. The world's primary exporter of rice is Thailand. Other major exporting countries include Pakistan, India, and Vietnam. The United States competes with these and other countries in the world market. World rice export market share is a critical issue for the U.S. rice industry because we depend on the world market to sell such a large part of our annual production. Unlike the price for U.S. produced wheat and feed grains, the price for milled rice traded on the world market, is determined in large part by our Asian competitors.

While the total export market share of U.S. rice has fallen, the United States has emerged as the world's leading exporter of "rough" (unprocessed) rice. Because the U.S. is the only major rice exporter that does not restrict the export of rice in its raw form, the U.S. has a competitive advantage in the rough rice trade. Other major rice exporters, through

government intervention in the export trade, forego rough rice exports in an effort to retain in their countries the value-added economic activity that milled rice exports generate.

RECOMMENDATIONS

Mr. Chairman, we appreciate the Committee's efforts to gain input from the rice industry through these hearings to consider the effectiveness of our farm programs. We also appreciate the opportunity to comment on the impact of the 1996 Farm Bill on rice producers, and to recommend specific changes in our farm programs that will allow our growers to earn a reasonable return on their efforts, contribute to the economic success of their rural communities, and provide critical habitat to hundreds of wildlife species. U.S. rice producers also believe it is important to develop a new farm bill that is consistent with our existing domestic support obligations under the World Trade Organization (WTO).

We applaud this Committee for the action you took last week specifically endorsing a baseline increase in the Committee's recommendations to the Committee on the Budget. Enacting a permanent increase in the Commodity Credit Corporation (CCC) baseline for commodity program spending is a key objective for the U.S. rice industry. The baseline should be increased to a level that will allow the Congress to design and enact an adequate farm program safety net – one that will not require later Congresses to resort to ad hoc emergency initiatives. The current projected budget levels are insufficient to meet this need.

In fact, even the farm program outlays as increased by emergency spending for fiscal years 1998-2000 was only minimally sufficient to keep many farmers afloat. We recommend that the CCC budget baseline should be permanently increased to a level that will allow the enactment of farm programs that can respond by design to the type of economic stress currently facing agriculture. Crop producers should not have to stake their livelihood in such difficult times on uncertain, ad hoc assistance.

Beyond securing an increase in the budget baseline for farm programs, U.S. rice producers recommend the specific proposals outlined below for inclusion in the new farm bill. In an effort to provide the Committee with detailed information regarding the impact of our proposals, U.S. rice producers engaged Sparks Companies, Inc. (SCI) to analyze these programs. The primary results of this analysis for all program crops are included in our testimony where appropriate. The full analysis has been provided to the Committee.

Maintain the planting flexibility provisions in the 1996 FAIR Act. Prior to the enactment of the 1996 Farm Bill, farmers had to plant their base acreage to a specific crop in order to receive program payments. Therefore, farmers largely planted their base acreage irrespective of what the market was signaling, or what made the most sense agronomically. Congress wisely changed this system in the 1996 Farm Bill to allow producers to receive program benefits largely without regard to which crop producers planted on their base acreage. Maintaining the

planting flexibility provisions enacted in the 1996 Farm Bill is strongly supported by U.S. rice producers and should be continued in any new farm legislation.

Continue the marketing loan and loan deficiency payment (LDP) structure as currently administered under the 1996 FAIR Act. The marketing loan program for rice was first implemented in 1985. This program has been critically important in helping the U.S. rice industry to maintain its export competitiveness while freeing the government from taking over rice under the loan program. Loan deficiency payments (LDP) allow producers to waive their right to the loan program while receiving a direct payment equal to the difference between the loan rate and the existing market price (when the market price is below the loan rate). Both LDPs and marketing loans provide rice producers with critically important income protection while keeping the U.S. rice industry competitive in international markets.

Rice producers strongly support maintaining the option for producers to redeem their loans with generic commodity certificates. This option has enhanced the marketing flexibility available to producers, empowering them to more effectively market their rice both here and abroad. This current marketing loan system works well, and should be continued.

Continue to establish rice loan rates at no less than \$6.50 per hundredweight. The loan program provides much needed liquidity for rice producers and should be maintained at not less than the \$6.50 per hundredweight level. The Secretary of Agriculture should be given the discretionary authority to raise the loan rate above this base level. If Congress realigns the loan rates for the other program crops with the current soybean loan rate or otherwise increases loan rates, then we would support alignment of the rice loan rate with these higher rates. This will discourage distortions in cropping patterns and loan-rate driven over- and under-production of individual commodities.

?? The marketing loan program for rice, as we have proposed, would provide rice producers with support ranging from \$0.95 to \$1.94 per hundredweight. This compares to LDPs of \$2.89 in 2000. For rice, the LDPs would result in government costs of \$190 million to \$340 million per year, with a total budget cost for rice of \$1.31 billion over the five years 2003-07. Any increase in the rice loan rate above \$6.50 per hundredweight would increase producer support and budget costs above these levels.

?? For all eight of the major program commodities (corn, sorghum, barley, oats, wheat, rice, cotton and soybeans), the marketing loan program would provide producer support ranging from \$310 million to \$3.32 billion per year, with a total budget cost of \$6.63 billion over the five years 2003-07. Under the assumed (current) loan rates and the forecast prices, only rice and soybeans are projected to receive marketing loan gains or loan deficiency payments by the later years of the period. Commodity-specific year-by-year support levels and outlays are included in the tables below.

Continue to ensure that basic commodity programs are not contingent on mandatory idled acreage. Until the 1996 Farm Bill, a major component of our domestic farm policy for fifty years had been annual supply controls. However, the 1996 Farm Bill ended this reliance on annual supply controls. As U.S. agriculture in general, and the rice industry in particular, has become more dependent on exports, supply controls became a hindrance to our ability to expand our exports and maintain our reputation as a reliable supplier. Mandatory production controls raise our own cost of production and reduce our export competitiveness, while allowing foreign competitors to increase their share of the global rice market. Therefore, future farm program benefits should not be contingent on any annual supply control requirements.

Provide “Decoupled” PFC-type Payments. The 1996 Farm Bill created a new system for providing direct income support to rice producers. Rather than deficiency payments, which varied according to market prices, the 1996 legislation provided fixed direct payments, which declined each year through the 2002-crop year. Rice producers recommend that a similar fixed payment, decoupled from current production, be provided over the FY2003-2007 period, at the FY2002 budgeted level of approximately \$4.01 billion for the eight major program crops. Such a payment should give producers an assured minimum level of support, in compliance with the WTO “Green Box” provisions.

However, many rice producers continue to be concerned regarding the effects that the current Production Flexibility Contract (PFC) payments are having on the rice-farming infrastructure. Because these payments are currently completely decoupled from rice production, some tenant farmers have been faced with situations where landlords make the economic decision to accept the PFC payments, while declining to produce a crop, or even to accept any risk associated with the production of a rice crop.

This is one of several factors that have contributed to the decline in rice acreage in Texas, since the enactment of the 1996 Farm Bill, from 300,000 acres planted in 1996 to 240,000 acres planted in 2000. Rice producers believe that any new farm legislation should be carefully constructed to avoid further economic dislocations of this type.

U.S. rice producers have not yet reached a consensus on precisely how to address this issue between landlords and tenants. However, rice producers agree that benefits under our farm programs should accrue primarily to those who have actually produced or shared in the risk of producing the crop.

Rice producers will continue to work toward suggested resolutions to this issue in the months ahead. We will be pleased to work with the Committee on resolutions to these important issues.

- ?? Extended PFC-type payments for rice, at the 2002 level, will average about \$340 million per year. The total budget cost for rice would be approximately \$1.69 billion over the five years 2003-07.
- ?? Extended PFC-type payments for the seven major program crops currently receiving PFC payments, paid at the 2002 level, will average about \$4.01 billion per year. The total budget cost would be approximately \$20.04 billion over the five years 2003-07. To the extent that budget resources remain available, we would urge the Committee to consider providing these payments at the 1999 payment rate. If these payments were extended to soybean producers, as some have suggested, program costs would rise accordingly.

Provide a more effective income safety net for producers through a countercyclical income support payment in addition to current program mechanisms. While the program structure of PFC payments coupled with LDPs has served the rice industry well, it also contained some weaknesses. Specifically, this structure has provided inadequate income support in periods of low prices such as those experienced since 1998. This has necessitated the enactment of emergency farm assistance in each of the last three years.

In an effort to address this inadequacy on a long-term basis, U.S. rice producers support maintaining a PFC-type fixed payment coupled with LDPs, while supplementing them with a countercyclical payment paid to producers. We recommend that the countercyclical payment be comprised of a Gross Revenue Program (GRP) of payments formulated in the following way:

- ?? Establish Base Gross Revenue for each crop by averaging annual gross revenue (crop specific) for each of the years 1996-2000. The gross revenue calculated for each year is total annual national production multiplied by the season average price (National Agricultural Statistics Service).
- ?? In any year where the national gross revenue for a crop is less than the Base Gross Revenue for that crop, producers will receive a gross revenue payment.
- ?? The per unit payment (\$/cwt/bu./lb.) to producers is calculated by dividing the gross revenue shortfall for the year by current year production.
- ?? A producer would establish a GRP production base based on his or her average plantings of each program commodity during the 1996-2000 base period. The production base could be determined by the following formula:

| | | |
|---|---|---|
| Producer's average acreage planted to the crop during crop years 1996 - 2000 | X | Producer's average actual yields on the crop during crop years 1996 - 2000 |
|---|---|---|

- ?? The producer would receive a payment that would be equal to the per unit payment multiplied by the production base (with provisions made for payments in the event a producer is prevented from planting or experiences another disaster).
- ?? GRP payments would be limited to being paid only on base production. In the event that a producer increases planted acreage above the base, production from the increased acreage would not be eligible to receive a payment.
- ?? Adjustments would have to be made for a pro rata reduction in the revenue and payment calculations when a producer plants less than his or her acreage base and produces less than his or her base production (with provisions made for payments to be made to producers in the event a producer is prevented from planting or experiences another disaster).
- ?? Like LDPs, the gross revenue payment would be made directly to rice producers (including those sharing in the risk of producing the crop).
- ?? The GRP payments are in addition to, not as a substitute for, the fixed decoupled payments and LDPs.
- ?? No payment limitation would be applicable to these payments.
- ?? We assumed that this new program would not begin until the 2003 crop year, but it could be made effective sooner.
- ?? Rice producers will need to work with the Committee to develop other details of the program. Examples of these details include:
 1. Whether the program could be designed to so that producers would be eligible for payments on plantings above and beyond their base acreage.
 2. Alternatively, whether producers that have a base in *any* program commodity in the base years could be made eligible for GRP payments on either their base commodity (based on their actual history) or on any other program crop (based on some other history; e.g. county average yields for that commodity during the base period).

Regional differences in yields should be considered when calculating the countercyclical payments. Regions of the country where yields are above the national average, for example, should not be penalized as compared to regions that experience below average yields. Our proposal addresses this issue by basing countercyclical payments on each producer's actual production and yields.

- ?? Gross Revenue Program payments for rice under this program range from \$0.25 to \$1.04 per hundredweight. Government outlays for rice would range from \$210 million in 2003 to \$50 million by 2007, with a total budget cost for rice of \$650 million over the five years 2003-07.

?? Gross Revenue Program payments for all eight major program commodities, based on average market returns during the 1996-2000 crop years, would range from \$1.48 billion in 2003 to \$80 million by 2007, with a total budget cost of \$2.06 billion over the five years 2003-07. Commodity-specific year-by-year support levels and outlays are included in the tables below.

It should be noted that the SCI baseline analysis suggests stronger world and domestic markets for feed grains, soybeans and wheat, but only slightly higher prices for rice and cotton, throughout the period 2003 through 2007. As a result of these continuing low rice prices, payments to rice producers represent more than their historical share of some of these program payments.

The tables below show the market revenues, PFC/Market Loss/fixed payments, GRP, and marketing loan gain/LDP payments, on a commodity-specific basis, for 1996-2007.

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**Market Revenue, PFC/Market Loss/Fixed Payment, Gross
Revenue Program and Marketing Loan Gain/LDP (\$ per Unit)**

| | 1996 | 1997 | 1998 | 1999 | 2000 | '96-2000 Avg. | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------------------|------|------|------|------|------|------------------|------|------|------|------|------|------|------|
| <u>Market Revenue</u> | | | | | | | | | | | | | |
| Corn (bushel) | 2.71 | 2.43 | 1.94 | 1.82 | 1.90 | 2.16 | 2.05 | 2.18 | 2.23 | 2.30 | 2.29 | 2.30 | 2.30 |
| Sorghum (bu.) | 2.34 | 2.21 | 1.66 | 1.57 | 1.85 | 1.93 | 1.90 | 2.01 | 2.06 | 2.05 | 2.05 | 2.08 | 2.09 |
| Barley (bu.) | 2.76 | 2.39 | 1.98 | 2.13 | 2.15 | 2.28 | 2.20 | 2.15 | 2.15 | 2.45 | 2.45 | 2.45 | 2.45 |
| Oats (bu.) | 1.96 | 1.62 | 1.16 | 1.12 | 1.07 | 1.38 | 1.07 | 1.15 | 1.26 | 1.27 | 1.27 | 1.30 | 1.30 |
| Wheat (bu.) | 4.30 | 3.38 | 2.65 | 2.50 | 2.65 | 3.10 | 2.85 | 3.05 | 3.18 | 3.27 | 3.31 | 3.35 | 3.23 |
| Rice (hundredweight) | 9.97 | 9.73 | 8.89 | 6.11 | 6.00 | 8.14 | 6.15 | 6.30 | 6.45 | 6.65 | 6.90 | 7.03 | 7.20 |
| Cotton (lb.) | 0.69 | 0.65 | 0.60 | 0.45 | 0.59 | 0.60 | 0.44 | 0.51 | 0.55 | 0.61 | 0.64 | 0.68 | 0.70 |
| Soybeans (bu.) | 7.35 | 6.47 | 4.93 | 4.63 | 4.60 | 5.60 | 4.00 | 4.00 | 4.70 | 5.10 | 5.30 | 5.41 | 5.44 |
| <u>PFC/MLA/Fixed Pymt</u> | | | | | | | | | | | | | |
| Corn | 0.28 | 0.27 | 0.41 | 0.55 | 0.49 | 0.40 | 0.20 | 0.18 | 0.18 | 0.17 | 0.17 | 0.17 | 0.16 |
| Sorghum | 0.35 | 0.44 | 0.85 | 0.96 | 1.15 | 0.75 | 0.35 | 0.34 | 0.32 | 0.32 | 0.31 | 0.32 | 0.31 |
| Barley | 0.31 | 0.33 | 0.53 | 0.86 | 0.72 | 0.55 | 0.26 | 0.26 | 0.26 | 0.26 | 0.26 | 0.25 | 0.25 |
| Oats | 0.07 | 0.06 | 0.08 | 0.12 | 0.13 | 0.09 | 0.05 | 0.08 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 |
| Wheat | 0.64 | 0.57 | 0.89 | 1.27 | 1.25 | 0.92 | 0.50 | 0.47 | 0.47 | 0.46 | 0.45 | 0.45 | 0.45 |
| Rice | 2.74 | 2.51 | 3.98 | 4.56 | 4.68 | 3.69 | 1.79 | 1.73 | 1.69 | 1.70 | 1.69 | 1.68 | 1.68 |
| Cotton | 0.07 | 0.07 | 0.15 | 0.17 | 0.15 | 0.12 | 0.05 | 0.06 | 0.06 | 0.05 | 0.05 | 0.05 | 0.06 |
| Soybeans | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| <u>Gross Revenue Prog.</u> | | | | | | | | | | | | | |
| Corn | | | | | | | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sorghum | | | | | | | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Barley | | | | | | | | | 0.19 | 0.00 | 0.00 | 0.00 | 0.00 |
| Oats | | | | | | | | | 0.29 | 0.29 | 0.28 | 0.24 | 0.20 |
| Wheat | | | | | | | | | 0.08 | 0.00 | 0.00 | 0.00 | 0.00 |
| Rice | | | | | | | | | 1.04 | 0.90 | 0.61 | 0.41 | 0.25 |
| Cotton | | | | | | | | | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 |
| Soybeans | | | | | | | | | 0.20 | 0.00 | 0.00 | 0.00 | 0.00 |
| <u>LDP</u> | | | | | | | | | | | | | |
| Corn | 0.00 | 0.00 | 0.14 | 0.25 | 0.23 | 0.12 | 0.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sorghum | 0.00 | 0.00 | 0.12 | 0.22 | 0.26 | 0.12 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Barley | 0.00 | 0.00 | 0.23 | 0.17 | 0.21 | 0.12 | 0.10 | 0.15 | 0.15 | 0.00 | 0.00 | 0.00 | 0.00 |
| Oats | 0.00 | 0.00 | 0.12 | 0.19 | 0.29 | 0.12 | 0.20 | 0.08 | 0.07 | 0.06 | 0.06 | 0.07 | 0.07 |
| Wheat | 0.00 | 0.00 | 0.19 | 0.41 | 0.37 | 0.19 | 0.07 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Rice | 0.00 | 0.00 | 0.08 | 1.91 | 2.89 | 0.98 | 1.94 | 1.85 | 1.70 | 1.50 | 1.25 | 1.12 | 0.95 |
| Cotton | 0.00 | 0.00 | 0.09 | 0.20 | 0.04 | 0.06 | 0.24 | 0.15 | 0.10 | 0.04 | 0.02 | 0.00 | 0.00 |
| Soybeans | 0.00 | 0.00 | 0.44 | 0.87 | 0.86 | 0.43 | 1.57 | 1.57 | 0.70 | 0.32 | 0.15 | 0.06 | 0.03 |

**Market Revenue, PFC/Market Loss Assistance/Fixed Payment,
Gross Revenue Program and Marketing Loan Gain/LDP
(\$ per Unit)**

| |
|------------------------------------|
| <i>Total Govt. Payments</i> |
|------------------------------------|

| | | | | | | | | | | | | | |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Corn (bushel) | 0.28 | 0.27 | 0.55 | 0.80 | 0.72 | 0.52 | 0.24 | 0.18 | 0.18 | 0.17 | 0.17 | 0.17 | 0.16 |
| Sorghum (bu.) | 0.35 | 0.44 | 0.97 | 1.18 | 1.41 | 0.87 | 0.35 | 0.34 | 0.32 | 0.32 | 0.31 | 0.32 | 0.31 |
| Barley (bu.) | 0.31 | 0.33 | 0.77 | 1.03 | 0.94 | 0.67 | 0.36 | 0.41 | 0.60 | 0.26 | 0.26 | 0.25 | 0.25 |
| Oats (bu.) | 0.07 | 0.06 | 0.20 | 0.31 | 0.42 | 0.21 | 0.25 | 0.15 | 0.43 | 0.42 | 0.41 | 0.38 | 0.34 |
| Wheat (bu.) | 0.64 | 0.57 | 1.07 | 1.68 | 1.62 | 1.12 | 0.57 | 0.47 | 0.55 | 0.46 | 0.45 | 0.45 | 0.45 |
| Rice (hundredweight) | 2.74 | 2.51 | 4.05 | 6.47 | 7.58 | 4.67 | 3.73 | 3.58 | 4.43 | 4.10 | 3.55 | 3.21 | 2.88 |
| Cotton (lb.) | 0.07 | 0.07 | 0.24 | 0.36 | 0.19 | 0.19 | 0.29 | 0.21 | 0.21 | 0.10 | 0.08 | 0.05 | 0.06 |
| Soybeans (bu.) | 0.00 | 0.00 | 0.44 | 0.87 | 0.86 | 0.43 | 1.57 | 1.57 | 0.90 | 0.32 | 0.15 | 0.06 | 0.03 |

| |
|------------------------------|
| <i>Total Revenues</i> |
|------------------------------|

| | | | | | | | | | | | | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Corn | 3.27 | 2.97 | 3.04 | 3.42 | 3.34 | 3.21 | 2.53 | 2.55 | 2.58 | 2.64 | 2.63 | 2.63 | 2.63 |
| Sorghum | 3.04 | 3.09 | 3.60 | 3.93 | 4.67 | 3.67 | 2.60 | 2.70 | 2.70 | 2.68 | 2.68 | 2.71 | 2.71 |
| Barley | 3.37 | 3.06 | 3.51 | 4.19 | 4.02 | 3.63 | 2.93 | 2.97 | 3.35 | 2.97 | 2.96 | 2.95 | 2.95 |
| Oats | 2.09 | 1.74 | 1.55 | 1.74 | 1.91 | 1.81 | 1.57 | 1.45 | 2.12 | 2.12 | 2.10 | 2.07 | 1.97 |
| Wheat | 5.58 | 4.52 | 4.80 | 5.86 | 5.89 | 5.33 | 3.99 | 4.00 | 4.28 | 4.18 | 4.22 | 4.25 | 4.12 |
| Rice | 15.44 | 14.75 | 16.99 | 19.05 | 21.16 | 17.48 | 13.61 | 13.46 | 15.31 | 14.85 | 14.00 | 13.46 | 12.96 |
| Cotton | 0.84 | 0.80 | 1.08 | 1.18 | 0.97 | 0.97 | 1.01 | 0.94 | 0.96 | 0.81 | 0.79 | 0.79 | 0.81 |
| Soybeans | 7.35 | 6.47 | 5.82 | 6.37 | 6.32 | 6.47 | 7.13 | 7.13 | 6.50 | 5.73 | 5.60 | 5.53 | 5.51 |

More...

Total Government Outlays (in Billion \$)
PFC/MLA/Fixed Payment, Gross Revenue Program, and Marketing Loan/LDP
'96-00

| | 1996 | 1997 | 1998 | 1999 | 2000 | Avg. | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|------------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|
| <u>PFC/MLA/Fixed Pymt</u> | | | | | | | | | | | | | |
| Corn | 2.57 | 2.49 | 3.98 | 5.15 | 4.90 | 3.82 | 1.91 | 1.85 | 1.85 | 1.85 | 1.85 | 1.85 | 1.85 |
| Sorghum | 0.28 | 0.28 | 0.44 | 0.57 | 0.54 | 0.42 | 0.21 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| Barley | 0.12 | 0.12 | 0.19 | 0.24 | 0.23 | 0.18 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 |
| Oats | 0.01 | 0.01 | 0.01 | 0.02 | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Feed Grains | 2.98 | 2.90 | 4.62 | 5.98 | 5.69 | 4.43 | 2.21 | 2.15 | 2.15 | 2.15 | 2.15 | 2.15 | 2.15 |
| Wheat | 1.46 | 1.41 | 2.26 | 2.93 | 2.78 | 2.17 | 1.08 | 1.05 | 1.05 | 1.05 | 1.05 | 1.05 | 1.05 |
| Rice | 0.47 | 0.46 | 0.73 | 0.94 | 0.90 | 0.70 | 0.35 | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 |
| Cotton | 0.65 | 0.63 | 1.00 | 1.30 | 1.23 | 0.96 | 0.48 | 0.47 | 0.47 | 0.47 | 0.47 | 0.47 | 0.47 |
| Soybeans | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 5.56 | 5.40 | 8.62 | 11.15 | 10.60 | 8.26 | 4.13 | 4.01 | 4.01 | 4.01 | 4.01 | 4.01 | 4.01 |
| <u>Gross Revenue Prog.</u> | | | | | | | | | | | | | |
| Corn | | | | | | | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sorghum | | | | | | | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Barley | | | | | | | | | 0.06 | 0.00 | 0.00 | 0.00 | 0.00 |
| Oats | | | | | | | | | 0.04 | 0.04 | 0.04 | 0.03 | 0.03 |
| Feed Grains | | | | | | | | | 0.10 | 0.04 | 0.04 | 0.03 | 0.03 |
| Wheat | | | | | | | | | 0.18 | 0.00 | 0.00 | 0.00 | 0.00 |
| Rice | | | | | | | | | 0.21 | 0.18 | 0.12 | 0.08 | 0.05 |
| Cotton | | | | | | | | | 0.38 | 0.00 | 0.00 | 0.00 | 0.00 |
| Soybeans | | | | | | | | | 0.60 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | | | | | | | | | 1.48 | 0.22 | 0.16 | 0.12 | 0.08 |
| <u>LDP</u> | | | | | | | | | | | | | |
| Corn | | | 1.38 | 2.40 | 2.27 | 2.01 | 0.38 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sorghum | | | 0.06 | 0.13 | 0.12 | 0.11 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Barley | | | 0.08 | 0.05 | 0.07 | 0.07 | 0.04 | 0.05 | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 |
| Oats | | | 0.02 | 0.03 | 0.04 | 0.03 | 0.03 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Feed Grains | | | 1.54 | 2.61 | 2.50 | 2.22 | 0.45 | 0.06 | 0.06 | 0.01 | 0.01 | 0.01 | 0.01 |
| Wheat | | | 0.48 | 0.93 | 0.82 | 0.74 | 0.16 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Rice | | | 0.01 | 0.39 | 0.56 | 0.32 | 0.38 | 0.36 | 0.34 | 0.30 | 0.25 | 0.23 | 0.19 |
| Cotton | | | 0.56 | 1.55 | 0.29 | 0.80 | 2.27 | 1.20 | 0.82 | 0.38 | 0.18 | 0.00 | 0.00 |
| Soybeans | | | 1.22 | 2.31 | 2.38 | 1.97 | 4.72 | 4.67 | 2.10 | 0.97 | 0.47 | 0.19 | 0.11 |
| Total | | | 3.80 | 7.79 | 6.54 | 6.05 | 7.97 | 6.29 | 3.32 | 1.66 | 0.91 | 0.43 | 0.31 |
| <u>Total Govt. Payments</u> | | | | | | | | | | | | | |
| Corn | 2.57 | 2.49 | 5.36 | 7.55 | 7.17 | 5.03 | 2.29 | 1.85 | 1.85 | 1.85 | 1.85 | 1.85 | 1.85 |
| Sorghum | 0.28 | 0.28 | 0.50 | 0.70 | 0.66 | 0.49 | 0.21 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| Barley | 0.12 | 0.12 | 0.27 | 0.29 | 0.30 | 0.22 | 0.13 | 0.14 | 0.20 | 0.09 | 0.09 | 0.09 | 0.09 |
| Oats | 0.01 | 0.01 | 0.03 | 0.05 | 0.06 | 0.03 | 0.03 | 0.02 | 0.06 | 0.06 | 0.06 | 0.05 | 0.05 |
| Feed Grains | 2.98 | 2.9 | 6.16 | 8.59 | 8.19 | 5.76 | 2.66 | 2.21 | 2.31 | 2.20 | 2.19 | 2.19 | 2.19 |
| Wheat | 1.46 | 1.41 | 2.74 | 3.86 | 3.60 | 2.61 | 1.24 | 1.05 | 1.23 | 1.05 | 1.05 | 1.05 | 1.05 |
| Rice | 0.47 | 0.46 | 0.75 | 1.33 | 1.46 | 0.89 | 0.73 | 0.70 | 0.89 | 0.82 | 0.71 | 0.65 | 0.58 |
| Cotton | 0.65 | 0.63 | 1.56 | 2.85 | 1.52 | 1.44 | 2.75 | 1.67 | 1.67 | 0.85 | 0.65 | 0.47 | 0.47 |
| Soybeans | 0 | 0 | 1.22 | 2.31 | 2.38 | 1.18 | 4.72 | 4.67 | 2.70 | 0.97 | 0.47 | 0.19 | 0.11 |
| Total | 5.56 | 5.4 | 12.42 | 18.94 | 17.14 | 11.89 | 12.10 | 10.30 | 8.81 | 5.88 | 5.08 | 4.55 | 4.40 |

Eliminate the payment limitations for income support and marketing loan/loan deficiency payments. The 1996 Farm Bill imposes a payment limitation per person of \$40,000 for PFC payments, and of \$75,000 for loan deficiency payments and marketing loan gains combined. Congress has increased these limits on an annual basis over the past three years for program crops, including rice. Unless Congress acts, the \$150,000 payment limit for LDPs/marketing loan gains for the 2000 crop will revert back to \$75,000 for the 2001 crop year. These arbitrarily set payment limits only serve to limit income assistance and reduce the effectiveness of the existing program. Eliminating these payment limits will allow rice and other program crop producers to more fully utilize existing income and marketing assistance programs, and help to address the cost/price squeeze that all farmers, regardless of the size of their operations, are facing.

Compensate producers for current and future conservation/environmental practices that enhance water, soil and air quality and wildlife habitat. Rice growers currently provide about 775,000 acres of enhanced waterfowl and wildlife habitat at their own expense. The new farm bill should encourage producers to establish and maintain wildlife habitat by offering incentive payments to farmers who voluntarily implement certain approved practices. These environmental/conservation payments should be in addition to, and not as a substitute for, other income support provided under the new legislation. Payments should be made available not only to producers who begin to invest in such habitat protection, but also to those who have already implemented important wildlife habitat protection initiatives.

Comply with U.S. domestic support commitments under the WTO. Rice producers support the enactment of a farm bill that is consistent with our current domestic support commitments under the WTO. Such a farm bill could include, for example, domestic support programs that are not subjected to specific reduction commitments under the WTO (so-called “Green Box” programs). In addition, the bill could provide support under programs subject to specific WTO reduction commitments, but nonetheless allowed, on a limited basis, under the WTO (so-called “Amber Box” programs).

It is our understanding that the United States can “spend” \$19.1 billion annually on “Amber Box” programs, and still comply with its WTO domestic support commitments. Based on 1999 spending, approximately \$6.2 billion of this amount is currently committed each year to certain commodity price support programs (e.g. dairy, peanuts, and sugar).

Our economic analysis indicates that the programs we are recommending, if enacted for all major commodities, would not be expected to spend more than \$9 billion in any one year through 2007, of which less than \$5 might be characterized as WTO Amber Box spending. Thus, it would appear that these programs could be constructed to provide payments to producers based on current estimates of

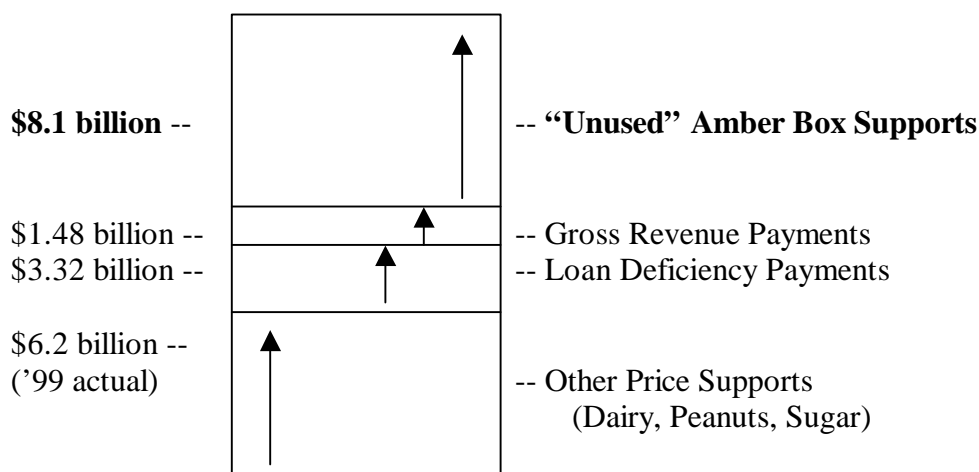
production and prices, and fit comfortably within the U.S. “Amber Box” limits, consistent with our WTO obligations.

In fact, the chart below reflects that even in the year with the greatest forecast spending under our proposal (FY 2003) the U.S. would still have more than \$8 billion available before threatening to exceed its WTO domestic support commitments.

U.S. Amber Box Spending under Rice Producers’ Program Proposals

(e.g. 2003 forecast)

\$19.1 billion = Total U.S. Available Amber Box Spending



We are aware of the limits of long-term economic projections in forecasting agricultural prices and farm program spending. However, we believe that the more than \$8 billion in Amber Box spending available provides a prudent cushion to accommodate downward commodity price events outside the bounds of our economic analysis. If, as the farm bill debate progresses, it appears that our recommended programs would cause the United States to violate its WTO domestic support commitments, then we would be willing to work with the Committee toward a resolution to this problem.

Should such work be necessary, the WTO “Green Box” rules regarding eligibility for decoupled income support is fairly flexible. These rules would appear to permit the operation of a farm program that reflects a balance between payments targeted to producers and the fulfillment of our WTO commitments.

ECONOMIC ANALYSIS & OUTLOOK

SCI's analysis extends five years beyond the end of the FAIR Act (through 2007). The analysis assumes the enactment of the fixed, LDP, and gross revenue programs consistent with our recommendations. The baseline analysis suggests stronger world and domestic

markets for feed grains, soybeans and wheat, but only slightly higher prices for rice and cotton. The analysis also shows:

- ?? Market revenues continuing under significant pressure for rice and cotton, with plantings for both crops likely to decline or remain steady during the out-years of the projection period.
- ?? Rice sales in domestic markets likely will continue to grow throughout the period. However, there is agreement among analysts that competition for export markets will intensify, even for those that traditionally depend on US products. Thus, U.S. rice sales overseas could decline significantly, keeping pressure on prices throughout the projection period. Market revenues could weaken steadily, especially through 2002. Revenues may grow only modestly through 2007, in spite of expectations for steady harvested rice area at levels well below 1999.
- ?? Expanded plantings for feed grains, wheat and soybeans in response to much stronger market revenues for those crops.

In this context, U.S. rice producers face two difficult challenges. First, dealing with the low returns from weak markets and sharply increasing production costs this year (2001 crop) and next. The second challenge will be to develop and expand export markets in the future.

- ?? Rice producers' production costs for petroleum and fertilizer are among the highest in agriculture. At a time when government support for the sector is winding down under the FAIR Act, the combination of weak markets and sharply rising costs is further eroding market returns and could severely undercut producers' financial stability.
- ?? Current expectations are that rice producers' net market returns for the 2001 crop, not including government payments, could be negative. This result is reached using USDA's estimates of variable cash costs (which were estimated in October, 2000 and do not fully reflect the more recent run-up in production costs). *Rice is the only major commodity for which such negative returns are forecast.*
- ?? Government support for rice producers will likely be about \$1.46 billion for the 2000 crop. Based on the current farm program, government support for the 2001 crop could fall to \$0.73 billion, a decline of 50 percent. In such a scenario, producers' net revenues could fall to \$0.72 billion for the 2001 crop, less than one-half the level for the previous year and the lowest in recent years. This would be a severe financial blow to the sector, one that many producers would not expect to survive.

It is because of this pressing cash flow problem that U.S. rice producers need immediate assistance for the 2001 and 2002 crops. If that help is not forthcoming, in the form of a Market Loss Assistance or similar payment for 2001 and 2002, many rice farmers will find themselves facing the end of their farming operations. Such payments need to be in an amount that will raise government payments to a level that is at least equal to the total payments received in crop year 2000.

Turning to the period beyond the end of the current farm bill, government support provided through the programs we recommend could help alleviate low rice and other commodity producer market returns in the future. With this support, low rice and other commodity market revenues expected during 2003-07 are partially offset by modest payments.

?? For rice, the budget costs for all three programs are forecast to range from \$890 million in 2003 to \$580 million by 2007, for a total cost of \$3.66 billion for rice during 2003-07. However, in spite of this additional support, net revenues for rice would continue at very low levels, well below those of 1998-2000, for example.

?? For all program crops, the budget costs for all three programs for all program crops are forecast to range from \$8.81 billion in 2003 to \$4.40 billion by 2007, for a total cost of \$28.72 billion during 2003-07.

We recognize the disparity between our recommendation for a substantial increase in the budget baseline for the Commodity Credit Corporation and the spending of approximately \$9 billion in the highest spending year of our forecast. We believe that this is a responsible and defensible position for a number of reasons.

?? First, any such forecasts of commodity prices into the future are fraught with uncertainty and peril. Even minor deviations from these projections can result in additional Federal outlays of billions of dollars on these programs, as we have learned since the enactment of the 1996 farm bill. This cushion of budget authority will allow this Committee and the Congress to write a farm bill that will be flexible and responsive enough to respond to periods of low prices by design, rather than by emergency legislation. Essentially, this will provide for a downside hedge against low commodity prices in the future.

?? Second, our budget projections do not account for program initiatives with respect to other commodities or priorities that the Committee may want to provide for as part of the farm bill. For example, the rice conservation payments recommended in our testimony, the increasing of loan rates for program commodities, or the establishment of enhanced payments for soybean producers.

CONCLUSION

We urge the Congress to pass legislation this year to provide additional income assistance for crop years 2001 and 2002 in amounts that will bring total government assistance to the same level as that provided by Congress for the year 2000 crop.

The nation's rice producers also collectively urge the Congress to move rapidly to enact a new farm bill that addresses the fundamental issues of an improved safety net through a combination of a fixed PFC-type payment, extension of the current marketing loan mechanisms, and a counter cyclical income support payment (GRP). The possible increase of loan rates to keep the rice loan rate aligned with the other commodity loan rates should also be carefully reviewed.

It is our view that even the increased Commodity Credit Corporation spending over the past 3 years was only minimally sufficient to support producer income in this very difficult period. As this Committee has recognized, a significant increase in the CCC budget baseline going forward will be necessary to provide the resources necessary for this Committee and the Congress to fashion an adequate farm program safety net. We look forward to continuing to work with you toward this important goal.

Equally important, the new farm bill should maintain the 1996 FAIR Act's planting flexibility and refrain from any return to annual supply controls. The bill should also provide for incentive payments for wildlife habitat and other environmental benefits voluntarily provided by producers.

It is also important for Congress to develop a new long-term farm bill that targets payments to those who have actually produced, or shared in the risk of producing, the crop, while maintaining consistency with our domestic support obligations under the WTO.

Again, on behalf of the nation's rice producers, I want to thank you and the Members of the Committee for your interest in these important issues, and for the opportunity to testify. John and I would be glad to answer any questions that you may have.